



King County

HRA VEBA – You Do the Math

VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

As employees with employer-paid health insurance, most of us are unaware of the cost of health care insurance and health care services and medicines. Consultants for the county's proposed VEBA plan estimate that the after-retirement health care costs for a retiree and spouse at age 60 are about \$300,000. Here is a worksheet and some information to help you figure out how a VEBA can help defray those costs.

The information you will need include:

- An estimate of how much sick leave you will have when you retire, and your hourly wage
- An estimate of your tax rate the year you plan to retire (or use 30% as a rough estimate, which includes 7.65% FICA)
- An estimate of your health insurance premium costs (see reverse side for more information).

STEP 1: Figure out how much sick-leave cash out you can expect to receive.

_____ hrs. X .35	X \$ _____	=	\$ (a) _____
(Hours Sick Leave) X	\$ Hourly Rate		Estimated amount of
% Cash-Out Rate)			sick-leave cash out

STEP 2. Figure out the tax benefits of participating in a VEBA. To figure the amount of taxes you will pay on your cash out, multiple the estimated amount by 7.65%, plus your tax rate, or use 30% as a rough estimate.

	(a) Amount of Sick Leave Cash Out X (b) Tax Rate (use .30 or .0765 + your tax rate)	Amount paid in taxes		(a) Amount of Sick Leave Cash Out Less (c) amount of tax	Net Amount
As Tax-Free VEBA	\$ (a) _____ X 0 taxes =	(c) \$ 0	⇒	\$ (a) _____ - (c) \$0 =	\$ _____ (d)
As Taxable Wages	\$ (a) _____ X _____ =	(c) \$ _____	⇒	\$ (a) _____ - (c) \$ _____ =	\$ _____ (e)

STEP 3. Figure out how a VEBA can help pay for your health insurance premiums, the most common use of VEBA funds. Fill in the chart below with the (d) and (e) amounts calculated above and typical per-person per-month health insurance premiums. See reverse side for premium estimates.

	Net Sick Leave Cash Out		Total Monthly Health Ins. Premium Costs	Months Paid for by Sick-Leave Cash Out Funds
With Tax-Free VEBA	\$ (d) _____	÷	\$ _____	= \$ _____
As Taxable Wages	\$ (e) _____	÷	\$ _____	= \$ _____




ESTIMATING RETIREE HEALTH COSTS – A Reality Check

It is conservatively estimated that a person retiring at age 60 with a normal life expectancy of age 84 would need \$150,000 for health care expenses. Inflation of health care premiums, which has been much higher than the Consumer Price Index, accounts for nearly half of those expenses. Your retirement pensions (both from the state Department of Retirement Systems and Social Security) will not increase at as fast a rate as the cost of health insurance premiums. Your health insurance will not cover everything. Medicare helps, but it only takes over after nearly all financial resources are exhausted, leaving the spouse or dependents with severe financial hardships. Copays, deductibles and out-of-pocket costs for drugs, doctors and other medical needs add up. Expenses such as assisted living (costing about \$30,000/year or more) are not covered fully or at all by Medicare or many health insurance plans.

PRE-65 RETIREMENT HEALTH INSURANCE

For pre-65 retirees, the least expensive retiree health and vision coverage through the county in 2006 is about \$320 per month per adult. Dental coverage, available in 2006 with COBRA only, is about \$63 per month per adult. The 2006 per person annual cost for all three would be about \$4,600.

For information about county retiree benefits:

-  Call Benefits and Retirement Operations at 206-684-1556
-  E-mail kc.benefits@metrokc.gov
-  View county COBRA/retiree medical rates at www.metrokc.gov/employees/benefits/leaving_employment/COBRA.aspx.

65+ RETIREMENT HEALTH INSURANCE



For those who retire at 65 and are Medicare eligible, cost calculations get more complicated. For 2006, the least amount of coverage for Parts B, D and Medigap is about \$180/month per person for minimum coverage and high out-of-pocket costs. Here are the basic plans, which can be purchased separately or combined into a single plan:

- **Part A Hospitalization.** Part A is for hospitalization and is free, in that most don't have to pay a premium, but it also covers only a **part** of the costs and for limited time periods.
- **Part B Medicare.** For 2006, Part B coverage costs \$88.50/month per person, pays for some physician charges, outpatient hospital services, certain home health services, and durable medical equipment, but has a deductible and 20% copay.
- **Part D Drug Plan.** Costs vary, but typically run from about \$25 to about \$140 depending on deductible amounts.
- **Medigap Plans A through L in Washington State.** Medigap covers some of the costs not covered by Parts A, B and D. Monthly costs range from \$59 to \$285 with wide variation among the 24 plans.

Other types of coverage you might want:

- **Estimated Dental.** From \$480/year to \$660/year (Medicare covers very little)
- **Estimated Vision.** No estimates are available. This coverage can be difficult to find. Medicare covers very little for ordinary vision care.
- **Long-term care insurance** costs – which Medicare does not cover – can range from \$1000/year if purchased at 50 and in excellent health to \$5000/year if same the policy is purchased at 75. For certain types of or advanced health problems, this coverage may be available only with very high premiums or not be available at all. Costs vary widely depending on plan coverage and terms.

For information about 65+ Medicare Benefits and other health coverage:

-  **Medicare – Find out what Medicare Covers**
www.medicare.gov
-  **Washington State Insurance Commissioner's Office**
Statewide Health Insurance Benefits Advisors (SHIBA)
www.insurance.wa.gov/consumers/Shiba_HelpLine